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Performing to Make Money—Making Money to Perform

By John V. Lombardi October 19, 2008 6:17 pm

In the endless Sisyphean task of explaining university finances to many audiences, we often encounter considerable skepticism about our permanent need for more money. No university worth its diplomas will argue that it has enough money to do its job. Not even the richest among us.

Instead, we seek continuously increasing revenue from our states, the federal government, our students, corporate sponsors, and of course our donors. We have a wide range of creative stories we tell about the wonderful things the money brings: more and better students, services, economic development, and significant research. It is all true, as we know, but nonetheless, we can see the skepticism in the eyes of our legislators, some of our donors, many of our students' parents, and the army of reformers who imagine high quality education should be a free good.

Sometimes we despair, but then again, the job is to preach the gospel of higher education to the unbelievers whether conversion takes place or not. There is a story we can tell, however, that sometimes reaches difficult audiences, especially those made up of business people.

Universities are indeed business enterprises, we can explain. They earn and spend money, they produce and sell a wide array of products, and they compete for student customers and high quality faculty employees. They produce teaching and research, they require students and faculty, and they judge their performance on the quality work both perform. Most people in our audiences will recognize all this as more or less appropriate and right. Then we come to the money.

Universities, we can tell them, are revenue engines with a business model fundamentally different from our corporate colleagues. The business world constructs enterprises to produce and sell products or services with the goal of making money. A successful business earns a profit that it distributes to its owners. The business measures its success by the amount of money (or value) created for its stockholders or owners. This is simple. If the business cannot make the product and sell it for a profit, it stops making that product and makes a different one that it can sell at a profit, because the point of the exercise is the profit not the product.

In the university however, we do something different. We engage in an intense and focused search for money so we can produce teaching and research (with all of its associated benefits). The more money we can generate the more and the better teaching and research we can do. The purpose of the money is to purchase quality teaching and quality research and support a quality university environment. We compete with each other not to make a profit but to acquire quality. We define the successful university by the total amount of quality it can accumulate (demonstrated by its products) within its boundaries.

Quality is rare and expensive because the best students and the best faculty can choose where to go and participate in the creation of quality. To get the best, we have to provide them with an ideal environment for realizing their dreams and aspirations. The people whose work we enable through the environment, the facilities, the support, and the opportunities we create using the revenue acquired from all those difficult sources generate the quality products. The point of the university is the quality product, not the money. For us, the money makes the quality product possible. For the business, the quality product makes the money possible.

The business model produces quality at a cost below what the market will pay for the product. The university model spends its revenue to produce the highest quality its money can buy, and then pursues additional money to buy more quality. We spend in a competition to acquire quality for our institutions where our business counterparts spend in a competition to produce higher profit margins for its owners. In the university, there are no owners; there are only quality producers. We compete to buy the highest quality producers our resources and the efficiency and effectiveness of our institutional systems permit.

In the business world, the one with the most profit taken out of the enterprise wins.

In the university world, the one with the most money invested into the creation of quality products wins.

Our business colleagues are not sure this is rational, but once they see the rules of university competition, they understand better how we play the game.